



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES OF A MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS COMMITTEE

HELD ON
Thursday, August 26, 2010
10:30 a.m., Arizona Time

The Operations Committee (OC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Steven Zeman, Chair, called the meeting to order at 10:30 a.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Steven Zeman, Chair
Mr. Tom Manos, Vice-Chair
Mr. David Byers

Absent: Mr. Kevin McCarthy

A quorum of the Committee was present for the purpose of conducting business.

2. Approval of the Regular and Executive Session Minutes of the June 29, 2010 OC Meeting

Motion: Mr. David Byers moved the regular and executive session minutes of the June 29, 2010, OC meeting be accepted. Mr. Tom Manos seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

3. Presentation, Discussion and Appropriate Action Regarding an ASRS Risk Assessment Update

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, presented a status update of the ASRS Biennial Risk Assessment to the Committee. Mr. Guarino noted there were 150 known operational and legislative risks and threats to the ASRS and staff provided an assessment of each risk or threat based on its risk tolerance, the perceived strength of agency controls, the likelihood of a risk event occurring, and the potential magnitude of the risk.

Mr. Guarino said ASRS staff was focused on several thematic areas of risk. These were 1) risks associated with data theft or financial loss due to fraudulent behavior, 2) risks that threaten the long-term viability of the ASRS, 3) risks that threaten affordable, accessible health insurance for members, and 4) risks that threaten the administrative cost effectiveness and service levels provided by the ASRS.

4. Presentation, Discussion and Appropriate Action Regarding an ASRS IT Project Review

Mr. Anthony Guarino introduced Ms. Valerie Burkett, Project Manager, Technology Services Division (TSD), who gave a review of the accomplishments of TSD in the last Fiscal Year (FY) as well as an overview of the planned projects for FY 2011. In her review, Ms. Burkett noted projects such as the enhancements to the ASRS website, completing some automation for workflows and tracking manual processes, completing performance reports that support ongoing management of work processes using the Cognos Reporting Tool, and other projects and strategic enhancements. Additionally, Ms. Burkett discussed the online production support activities completed in the last fiscal year. For FY 2011, Ms. Burkett noted TSD would continue to enhance the ASRS website, further automate workflows, and track other major work and projects.

5. Presentation, Discussion and Appropriate Action Regarding a Recent Test of the ASRS Continuity of Operations Plan

Mr. Guarino introduced Mr. Patrick O'Keefe, Network Information Systems Manager, TSD, who addressed the Committee regarding a recently conducted test of the ASRS Continuity of Operations Plan (COOP). Mr. O'Keefe stated members of the ASRS staff traveled to the ASRS Tucson offices in January 2010, and again in March 2010, to test the COOP. He noted the first exercise yielded a problem with the electrical circuitry that prevented the Uninterruptible Power Supply from initiating a cutover to the backup generator, and difficulty in accessing the first test of the PERIS database. The second exercise conducted in March successful.

Mr. O'Keefe stated a table-top exercise of the COOP was performed in April 2010, simulating a cyber attack on the communications infrastructure of Phoenix metro. The exercise identified gaps in the COOP, and Mr. O'Keefe said the agency would begin taking steps to fill those gaps.

6. Presentation, Discussion and Appropriate Action Regarding Administrative Fees

Mr. Guarino introduced Ms. Sara Orozco, Manager, Strategic Planning and Analysis, who presented the Committee with an updated analysis of the charging of fees for refunds, service purchase, benefit estimates, paper checks, and paper remittance advices. She said the fees, if charged, could be used to reimburse the ASRS operating budget for one or more of the following: the administrative costs of delivering service, increase the overall funded stats of the ASRS trust fund, or future technology projects.

Ms. Orozco said research had been conducted during the Spring and Summer of 2010 to determine what the common practices were within the pension community. She presented a survey of members of the National Association of State Retirement Administrators noting

various fees some pension systems had in place and that the ASRS had already implemented some alternative actions addressing benefit estimates, paper checks, and paper remittance advices.

7. Presentation, Discussion and Appropriate Action Regarding the Increase in the Lump Sum Retirement Threshold

Ms. Orozco gave a brief presentation to the Committee regarding the ASRS' desire to increase the lump sum threshold to \$100 for any members retiring on or after a particular date. She noted the current threshold is \$20, but an increase to \$100 would save significant operational costs associated with managing and maintaining small member accounts, and the \$20 threshold, when adjusted for inflation, would be approximately \$110 in today's dollars. Ms. Orozco also presented a cost savings analysis and matrix demonstrating the projected cost savings over 10 years.

Motion: Mr. David Byers moved to forward to the ASRS External Affairs Committee the Operations Committee's recommendation to seek proposed legislation to increase the lump sum threshold to \$100 and to make the change prospectively for members retiring on or after a date to be determined. Mr. Tom Manos seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

8. Review of Recently Conducted Audits

- **Logical Computer System Access**
- **Physical Access (to buildings and computers)**
- **Software Licensing**
- **Survivor Benefits and New Retiree Pension**
- **Arizona Department of Public Safety**
- **Fowler School District**
- **Osborn School District**

Mr. Bernard Glick, ASRS Chief Internal Auditor, presented the Committee with several recently completed audits.

The first audit dealt with ASRS logical computer system access. Mr. Glick stated the four findings from this audit which included a Segregation of Duties conflict at the network and PERIS application levels, PERIS access remaining in effect for post-termination staff, the disabling of network password complexity, and the lack of enforcement in period password change for certain security profiles in PERIS.

The second audit was regarding physical access to ASRS buildings and computers. Mr. Glick said there were two finding from the audit. First, significant control weaknesses existed in the agency's internally controlled facilities security effort and the security efforts managed by the building manager. Second, some ASRS staff leave their computers unlocked and unattended for periods of time that could allow someone to use their system for malicious purposes.

The third audit was on software licensing. Mr. Glick said the audit found the agency has inadequate controls in place to monitor and report on software license compliance, and there

were instances of obsolete software, unauthorized downloads, and use of shareware and freeware on agency computers.

The fourth audit presented dealt with Survivor Benefits and New Retirees Pension Audit. Mr. Glick stated the tested sample of new retirees' pension benefits reflected accurate calculations. The tested sample of survivor benefits owed to member's beneficiaries also reflected accurate determinations and calculations.

The fifth audit was of the Fowler School District. Mr. Glick said the audit found the Fowler School District did not remit ASRS contributions for 13 employees who were engaged to work at least 20 hours per week for at least 20 weeks in one or more fiscal years, and did not remit ASRS contributions for four employees who were eligible to participate because they were contributing with other ASRS employers. He said the District owed the ASRS \$26,598.

The sixth audit presented was of the Osborn School District. Mr. Glick said there were four findings from the audit: 1) the District did not remit ASRS contributions for one early retiree who worked 20 or more hours for 20 or more weeks before reaching normal retirement age, 2) the District did not remit ASRS contributions for one normal retiree who agreed to work 20 or more hours for 20 or more weeks within the first 12 months subsequent to termination or retirement, 3) the District did not remit ASRS contributions for four employees who were engaged to work at least 20 hours per week for at least 20 weeks in one or more fiscal years, and 4) the District did not remit ASRS contributions for six employees who were eligible to participate because they were contributing at other ASRS employers. Mr. Glick said \$24,072 was owed by the District to the ASRS.

The seventh audit dealt with the Arizona Department of Public Safety (DPS). Mr. Glick said there were numerous findings from the audit. First, DPS did not remit ASRS contributions for two regular retirees who had worked or been engaged to work 20 or more hours for 20 or more weeks within the first 12 months subsequent to termination or retirement, and DPS also did not remit ASRS contributions for one early retiree who had worked or been engaged to work 20 or more hours for 20 or more weeks before reaching normal retirement. Additionally, DPS did not remit ASRS contributions for 13 employees who were engaged to work at least 20 hours per week for at least 20 weeks in one or more fiscal years, did not remit ASRS contributions for three employees who were eligible to participate because they were contributing with other ASRS employees, and did not remit ASRS contributions on all eligible compensation for 13 employees.

Mr. Glick said DPS also reported ineligible compensation as ordinary earnings for certain employees nearing retirement, did not properly inform its employees that DPS employees are ineligible to request a return of contributions until after termination, did not properly account for military pay received by its employees who received Presidential Call-ups, and did not ensure that all retirees returning to work complied with the requirement that they acknowledge the provisions of the statute in writing. Additionally, DPS did not request a refund for one ineligible member who remitted contributions for part of a fiscal year.

Mr. Glick stated the total amount due the ASRS from DPS was \$115,419.

9. Presentation, Discussion and Appropriate Action Regarding an Internal Audit Quarterly Update

Mr. Glick presented a spreadsheet containing the summary of internal audits through the period ending June 2010, which was the end of the fiscal year. The spreadsheet listed the audits, the hours budgeted, and estimates of how many hours were used to perform the audits. Mr. Glick noted that all scheduled audits had been completed.

10. Presentation, Discussion and Appropriate Action Regarding the Retiree Health Insurance Contract Renewal

Motion: Mr. Tom Manos moved the Committee adjourn to Executive Session. Mr. David Byers seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

The Committee adjourned to Executive Session at 12:44 p.m.

The Committee reconvened to Regular Session at 1:40 p.m.

11. Request for Future Agenda Items

1. Mr. Zeman requested a validity audit to ensure the ASRS is disbursing money to the correct individuals.
2. Mr. Zeman requested an update of how much assessment has been produced on Employer self audits.

12. Call to the Public

No members of the public addressed the Committee.

13. Adjournment of the OC

Mr. Steven Zeman adjourned the meeting at 1:42 p.m.

Respectfully Submitted by,

Zachary Kucera
Committee Secretary

Date

Anthony Guarino
Deputy Director and Chief Operations Officer

Date